

Remarks by State Treasurer Phil Angelides
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Thank you, Reverend Jackson, for having me here today. It is my honor to be with all of you, as we talk about how we build an economy and social fabric of enduring strength.

What I would like to do this morning is to provide a perspective on California, which I believe is applicable across this country.

In so many ways, we have just finished a remarkable decade in which there was unprecedented wealth creation in this State and across this land. Indeed, one Silicon Valley venture capitalist said that what we saw in California in the 1990s was the greatest legal accumulation of wealth in the world's history. And, in fact, we saw a booming economy, with new jobs being created at a record pace.

And even today, notwithstanding the uncertainty of the marketplace – the roiling of the markets, the pause in economic growth – projections are that California is going to see continued growth in personal income, in jobs, and in expansion of the technology sector, that will lead the nation and the world.

The technology sector in our State is a part of the leading edge of this new global economy. Seventeen percent of the wages in California are in technology and 23 percent of this nation's high-tech manufacturing jobs are here in California.

Just recently, the Center for the Continuing Study of the California Economy released a report that said that our prospects are bright here, constrained only by our willingness and our ability in our own State to invest in our human capital and infrastructure to support private-sector economic expansion. In fact, the Center said that the high-tech industry here in California will grow six times faster than in the balance of the country.

We stand at the cusp of the 21st century, with so much wealth. In the aggregate, I do not think it is an overstatement to say that we are, here in California, living in the richest society in the wealthiest nation on earth.

Yet, we have deep and abiding challenges in front of us, and those challenges will test our ability to prevail in the long term, if we do not begin to grapple with them now. Because this very wealthy State is also a State that, in so many ways, is devolving into “two Californias” – one of opportunity and wealth, and one of struggle that is outside the mainstream of economic hope.

In the 1990s, the incomes of the wealthiest 1 percent in this State rose to over \$800,000 a year, while the incomes of the poorest 20 percent fell to \$12,000 a year.

We are gathered today at the center of the new global economy. Yet, if you travel 100 miles inland to the San Joaquin Valley, one in three children are in poverty. The unemployment rate is 5 percentage points higher than it is in any state in this nation. As we stand here today, the story of the Silicon Valley has not been the story of Compton and East Palo Alto and the San Joaquin Valley. We are in danger of becoming two societies and that, in the end, will tear at our social fabric and undermine our competitiveness in the global marketplace.

My friend, my college classmate who grew up with me in Sacramento, Dr. Cornel West, summed up California's situation all too well in his book, *The Future of American Progressivism*.

He wrote that, "We now see a world of advanced sectors and regions connected with one another and weakly linked to the backward sectors and regions of their own societies."

I believe the seminal challenge for Californians, whether we are political leaders or civic leaders or whether we are leaders in the high-tech industry, is to bridge this opportunity gap that will tear at our social fabric and our political sustainability, and that, in the end, will weaken us economically.

Aristotle, centuries ago, noted that at the heart of democracy is a shared stake in its success. Lester Thurow, the noted economist, has rightfully asked, "How does one preach political equality in an economy of ever-growing inequality?" How can we sustain the cost of poverty and social dysfunction? How can we sustain the economy unless there is broad opportunity?

So what I have tried to do as State Treasurer – joining the efforts you are undertaking and that the Reverend has been engaged in for decades – is to think about how we can use our assets and wealth in this State productively to get a return, and also to broaden opportunity and to bridge the gap that goes to the core of our sustainability.

The Reverend mentioned that, in May of 2000, we launched an initiative called *The Double-Bottom Line: Investing in California's Emerging Markets*. It had a very simple premise: that if we opened our eyes and took a clinical look at the changing face of California's economy and the great diversity of our State, we could find investments in our own emerging markets that were good for our pension and investment portfolio. At \$300 billion dollars, it is among the largest in the world, and it can play a role in bridging the gap of opportunity that plagues us so deeply and threatens our economic future.

One of the things that struck me most when I took this office is the unquestioning way in which tens of billions of dollars of American capital have flowed overseas to foreign emerging markets. And, in many ways, America's capital is playing a part in lifting up the living standards of some of the poorest nations on earth. But annualized returns of minus 30 percent in the Philippines, minus 19 percent in Malaysia, and minus 34 percent in Indonesia in my view are unacceptable. We can do better, and we can do better here at home if we are willing to look at our own emerging markets.

So we have been on a quest to open up new channels of capital to broaden hope and opportunity here at home.

I want to mention briefly the five principal goals that we have been working to achieve.

The first is to make capital flow to opportunities in our own emerging markets which can give us good returns and create wealth and employment where all too often it has not existed. We called on our own two pension funds to commit 2 percent of their portfolios to California's underserved communities.

And, I am proud to say that, in October of 2001, both funds adopted that investment goal, and now we are hard at work, putting investment vehicles in place.

In our own Treasurer's office, we have dramatically expanded deposits in community-lending institutions all over the State by over \$3 billion – institutions like Broadway Federal, serving South Los Angeles; Korean-American banks that fuel the economy of Koreatown in downtown Los Angeles; Chinese-American banks; and rural banks, that can utilize State deposits to make home and business loans.

We have, again, in the Treasurer's office, invested \$1 billion in Community Reinvestment Act mortgage loans made to low-income Californians or in low-income neighborhoods. And, we have Fannie Mae and Freddie Mac backing us up, so we are not taking undue risk. In fact, those mortgage investments performed better at 6.5 percent than the balance of our portfolio last year.

We have increased, from \$50 million to \$1.5 billion, our investments in urban, infill real estate in "underserved communities" in California. Those are areas where there is a need for retail, a need for housing, and a need for jobs, where we can get solid returns and fuel investment to revitalize communities that we have had a bad habit of throwing away in 25-year cycles.

The most exciting venture we have undertaken is something called "The California Initiative." This CalPERS Initiative commits \$475 million in private equity investments, through a set of partners, to invest in places of high unemployment and poverty, to grow the economy, and to give us the positive returns that can come from investing in places with capable labor pools and underutilized infrastructure.

Today, I looked at one of your workshops, and I am proud to see that some of our new partners are there. For the first time in years, I can talk to you about actual investment vehicles available to entrepreneurs in our own economy.

The second goal we have set is to diversify our pool of investment managers – to take advantage of the talent that diversity represents in our society. There was a time, before the 1970s, when the business schools of this country were bastions of only white men. But, that has changed. We now have people of color, talent, and diversity, trained at the best business schools, who know markets that the traditional investment community has paid too little attention to in the past. If we want to penetrate these new markets of opportunity, we need to diversify who manages our money.

I am proud to say that, for the first time, we are calling on talented African American, Asian,

and Latino investment managers to broaden our opportunities for our own future.

Our third goal is to marry our public resources – our money for infrastructure and affordable housing – to these new private investment ventures. When I assumed office, I was stunned by the extent to which billions of dollars in state and federal community development funds flowed without clear purpose and direction. We have rewritten the rules. Whether it is downpayment assistance and low-interest mortgages for teachers who are willing to teach in inner-city schools, infrastructure funding for cities and counties, or affordable housing funding, we are now driving resources to the urban and rural communities which have not fully shared in the bounty of economic progress.

Our fourth goal is to mainstream our domestic emerging markets. We need to have enough literature and discussion about these markets so they are treated the same way as all other sectors of our economy. I am now working with the University of California to create a California Emerging Markets Institute, which we hope will soon be in place at U.C. Berkeley's Haas Business School. The Institute will provide a forum where the important stories of community reinvestment – the successes and the failures and the lessons to be learned – can be researched and discussed to help create a mainstream market for California's future.

Our fifth and final policy goal is to engage other public investment leaders and the private-sector as our partners in a new era of investment to broaden opportunity and hope. We are a society of enormous wealth. Public pension funds have \$2 trillion in assets. Foundations in America today invest \$500 billion. We have high-wealth individuals, insurance companies, venture capitalists – we need to open their eyes to this new market. When we think about the cardinal rule of investment, it is “diversify, diversify, diversify.” For the technology community here today and investors across the country, it is time to focus on “diversity, diversity, diversity.”

I believe that we have started on a very important, but long journey. No one knows better than Reverend Jackson that any important movement takes first the act of one, and then ten, and then thousands, and then hundreds of thousands to take root.

I believe deeply that this movement to broaden capital access is critically important to this State and the nation's future. Closing the opportunity gap must be at the center of our political debate.

Let me close with this quote from Martin Luther King, Jr., who said: “Even if I knew that tomorrow the world would go to pieces, I would still plant my apple tree.”

We do not know what tomorrow will bring. But we do know that we must plant the seed of greater opportunity throughout California and this nation.

I look forward to working with Rainbow PUSH on this great cause.